



2012 Retail Sustainability Report

Successes, Challenges, and a Vision for the Future



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Letter from the Retail Industry Leaders Association

On behalf of the Retail Industry Leaders Association (RILA) and our member companies, we are proud to present our first Retail Sustainability Report. For the past several years, RILA has provided resources to empower, enhance, and accelerate sustainability activities in the retail industry; this report is our first comprehensive look at the sustainability landscape.

But of course all the retail efforts identified in this report are only the beginning. There is still much more to be done. We can confidently say that since RILA began working with our members' sustainability executives four years ago, retailers have dramatically increased the reach and scope of their activities. Rather than stagnating throughout the recession as one might expect, retailers have redoubled their efforts—first focusing on their own operations, be it energy or landfill waste reduction in stores or customer engagement throughout the shopping experience, then reaching into their supply chains to ensure efficient operations and appropriate labor conditions.

We hope this report illustrates the tangible progress the industry has made, often without precedent. But there is still work yet to be done and there are still challenges the industry faces. Regardless, the retail industry will continue to drive progress.



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About the Retail Industry Leaders Association

The Retail Industry Leaders Association (RILA) is the trade association of the world's largest and most innovative retail companies. RILA members include more than 200 retailers, product manufacturers, and service suppliers, which together account for more than \$1.5 trillion in annual sales, millions of American jobs and more than 100,000 stores, manufacturing facilities, and distribution centers domestically and abroad.

RILA'S RETAIL SUSTAINABILITY INITIATIVE

RILA's *Retail Sustainability Initiative* (RSI) committee structure focuses on five sustainability areas key to successful retail programs: 1. energy and greenhouse gas (GHG) emissions; 2. waste and recycling; 3. products and supply chains; 4. environmental compliance; and 5. communicating, reporting, and engaging. The industry initiative engages retail sustainability executives for three primary objectives:

RSI helps executives...

Share best practices
(What can we learn from each other?)

Develop next practices
(What do we need to collectively learn?)

Communicate and advocate
(What can we teach stakeholders?)

By engaging with them through...

- Annual industry conferences
- Benchmarking studies
- Case studies
- Interactive conference calls and meetings
- Webinars with topic experts
- Newsletters and more frequent news mailings

- Research studies with actionable results
- Collaborative partnerships

- Commenting on regulations and rulemakings
- Advocating on behalf of retail sustainability interests
- Providing tools and resources for internal communication

In 2011, RSI hosted monthly conference calls and two annual meetings for each committee topic to discuss a wide range of compliance and sustainability topics as well as the annual Retail Sustainability Conference. Some of the most crucial themes addressed by RSI in 2011 included defining "sustainability" as it applies to the retail industry, identifying the stakeholders necessary to the industry's success on its sustainability journey, building relationships with those stakeholders, and initiating working projects to further the industry's collective sustainability agenda. Those activities included:

Project / activity	Target stakeholder	2011 results
Landlord-tenant collaborative dialogues	Landlords	<ul style="list-style-type: none"> • Energy, waste reduction toolkits • Study green lease toolkit
Standard supplier sustainability questionnaire development	Suppliers	<ul style="list-style-type: none"> • Report that highlighted landscape of supplier engagement activities • Developing supplier questionnaire to minimize duplication and supplier survey fatigue
Employee engagement research report	Employees	<ul style="list-style-type: none"> • Report that highlighted range of methods to engage employees for sustainability
Resource Conservation and Recovery Act (RCRA) reform	EPA	<ul style="list-style-type: none"> • Building relationship with EPA policymakers
Retail Sustainability Conference	Retail & product manufacturers	<ul style="list-style-type: none"> • Annual RILA Retail Sustainability Conference with nearly 400 attendees
Retail Sustainability Report	All retail stakeholders	<ul style="list-style-type: none"> • This report to highlight retail practices and industry sustainability trends

This report is a culmination the retail industry's activities, and specifically highlights the last year of retail sustainability efforts, which will continue to evolve and expand over time.

HISTORY OF RILA'S RETAIL SUSTAINABILITY INITIATIVE (RSI)

The initial group of retail participants and others met in Plano, TX in May of 2007. The meeting was instigated by two trends in the industry: 1. an increase in regulatory enforcement actions against retailers with regard to issues ranging from storm water violations to hazardous material management and 2. the increase in sustainability activities throughout the industry. Both compliance and sustainability were understood to define the spectrum of environmental efforts necessary to run a successful retail company then and in the future.

Representation at this meeting included key sustainability and compliance professionals from Advance Auto Parts, Auto Zone, BJ's Wholesale Clubs, CarMax, H-E-B, JC Penney, Limited Brands, Marks & Spencer, Office Max, Pier 1 Importers, and Walmart. Many of the individuals from this initial committed group have been crucial to the development and success of the Initiative.

Following this meeting, retailers worked through RILA to expand the Initiative to where it is today. RSI was first convened through a partnership between three organizations: Navista, The Shaw Group, and RILA. Navista, a public affairs group based in Washington, DC, specializes in coalition development and management, as well as strategic counseling. The Shaw Group is a global supplier of construction and engineering solutions, including environmental compliance, sustainability, and energy management consulting.

In August of 2007, RSI was formalized with an initial focus on addressing regulatory compliance and sustainability challenges through a coordinated forum with peer organizations and leaders. It was staffed by Navista, Shaw Environmental, and RILA who together provided strategic counsel, project management, and retail and technical expertise to the network. The official kickoff meeting for RSI was held only a couple months later, in October of 2007.

RSI has progressed significantly over the past four years, changing its structure and significantly increasing its retail membership. The Initiative has hosted four successful annual conferences, taking place each Fall and attracting almost 400 sustainability and compliance professionals from the retail industry to discuss best practices, develop collaborations, and identify future trends.

While RSI began with a core and committed group of 11 retail companies, it has grown to include participation from a wide swath of the industry's leading retailers: from large formats to small, and product categories ranging from apparel to automotive, electronics to toys, outdoor equipment to pet supplies. RSI will continue to grow and evolve, both in membership and focus, as the industry's needs and efforts evolve.

If you are interested in participating in the RILA *Retail Sustainability Initiative*, please visit <http://www.retailsustainability.com> to learn more.

About this Report

This report highlights sustainability leadership in the retail sector. Those who are familiar with corporate sustainability efforts realize that it is a rapidly evolving field. Due to the size and dynamism of the industry and its sustainability activities, it is not feasible to report on the performance of all of RILA's members. Therefore, this report will only provide a snapshot of retail's efforts.

This report discusses retail's environmental, social, and community impacts—those impacts within a company's four walls, in the products they sell, and in the local and global communities they touch. For the purposes of this report, "sustainability" is defined as operations that meet the needs of the present without compromising the ability of future generations to meet their own needs.

Data was collected from the most recent sustainability reports of 30 RILA retail member companies, which are representative of the industry's diversity, from food to general merchandise to specialty stores, and from large to small format.

In addition to sustainability report research, RILA members were invited to submit case studies for the report, and detailed interviews were conducted with the following 20 diverse retail companies:

- Belk
- Best Buy
- Gap Inc.
- H-E-B
- The Home Depot
- IKEA
- jcpenny
- Lowe's
- Meijer
- Petco
- PetSmart
- Publix
- Safeway
- Sears
- Staples
- Target
- VF Corporation
- Walgreen
- Walmart
- Whole Foods Markets

The authors would like to thank the 20 companies that were interviewed, as well as our industry advisory committee, comprised of six RILA member retail companies.

If you are interested in engaging in this dialogue, your feedback is welcome. Please visit <http://www.retailsustainability.com> to submit your questions or comments.

Introduction

For some retailers sustainability was built into their core values from the beginning; for others it has been embraced only more recently. Regardless of its origin, sustainability is becoming a core consideration for the retail industry, affecting strategy, operations, workforce engagement, and connection to consumers and communities.

Retailers are evaluating their direct store, distribution center, and supply chain operations to uncover cost-saving and workforce-enhancing opportunities. While sustainability programs are reducing energy, greenhouse gases, waste, and chemicals, employees throughout the organization are being empowered to find even more innovations.

Further, the retail industry is evolving to meet the changing needs of consumers and communities. As one of the most notable evolutions of the past decade, consumers have become progressively more concerned about their environmental and social impact. This concern has manifested in an increased demand for environmentally-friendly products, a rise in the availability of organic foods, and more.

This report seeks to highlight sustainability trends in the retail industry, shedding light on retail's evolving business practices and the challenges the industry still faces. The broader objective is to provide the retail industry and those it serves with a way to act on and engage in sustainability, through framing the critical issues, anticipating future trends, recognizing challenges, and sharing examples of how retailers are responding.

While the retail industry has made great progress toward addressing sustainability issues, it recognizes there is still more work to be done. This report is intended to start a dialogue by illustrating the industry's successes, challenges, and vision for the future.

Key Trends

The retail industry plays a unique role in connecting product manufacturers, consumers, employees, and communities. From this vantage point, retail companies have insight into evolving manufacturing practices, consumer preferences, and community demands. Further, the traditional measures of competition—namely price, quality, service, and convenience—are now being supplemented by environmental and social considerations. These changing marketplace dynamics reinforce retailers' efforts to identify and act on environmental and social concerns in their direct operations and product supply chains.

KEY TRENDS

During the development of this report, four key industry trends emerged:

1. **Working across sectors to achieve sustainability goals.** Achieving the social and environmental goals that retailers are setting is a significant challenge, often requiring expertise not yet available within an organization. To forge a path forward where there often is no precedent, retailers are reaching out to nonprofits, academics, and governments, as well as to their suppliers, consumers, investors, vendors, and communities. These stakeholders provide diverse perspectives that can accelerate sustainable innovation. Such groups are working to incent retailers to reduce energy, improve product sustainability, ensure proper supplier labor conditions, and more.
2. **Turning from sustainability as a cost and risk reduction measure to an opportunity for business growth.** The retailers leading the industry's sustainability charge recognize that the benefits extend well beyond achieving business efficiencies. Sustainability programs are increasingly seen as a source of innovation, a way of differentiating a company that appeals to employees and consumers, and a platform for new product and market development.
3. **Developing systems for continuous improvement.** As retailers build their sustainability programs, they have developed management, measurement, and IT systems for continuous improvement. Such mechanisms include environmental management systems, supplier scorecarding and management training, employee training and engagement, energy and waste reduction goals, sustainability reporting, and more.
4. **Fostering transparency in operations and in the supply chain.** Opportunities for risk mitigation, coupled with increased public scrutiny, are driving the need for additional disclosure. Reporting on financial information alone can no longer articulate the complexities and intricacies of retail operations and global supply chains. Retailers are recognizing their responsibility to act on this by increasing the transparency of their operations—disclosing their activities, strategies, goals, challenges, data, and more. Doing so institutionalizes their efforts, adds public accountability, and invites stakeholders into the conversation.

FUTURE DIRECTIONS

A key aspect of researching initiatives and trends for this report was to determine the industry's direction. Sustainability professionals in the retail industry will see their efforts

progressing in the next five to ten years in the following ways:

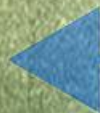
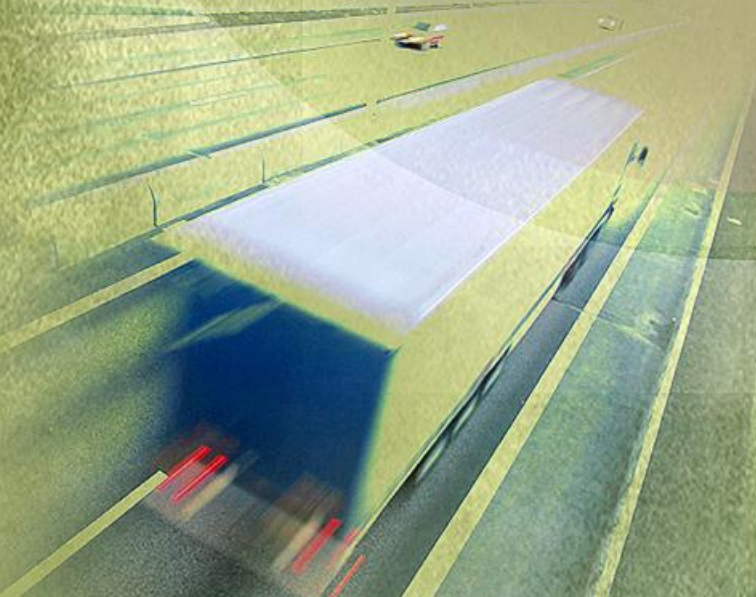
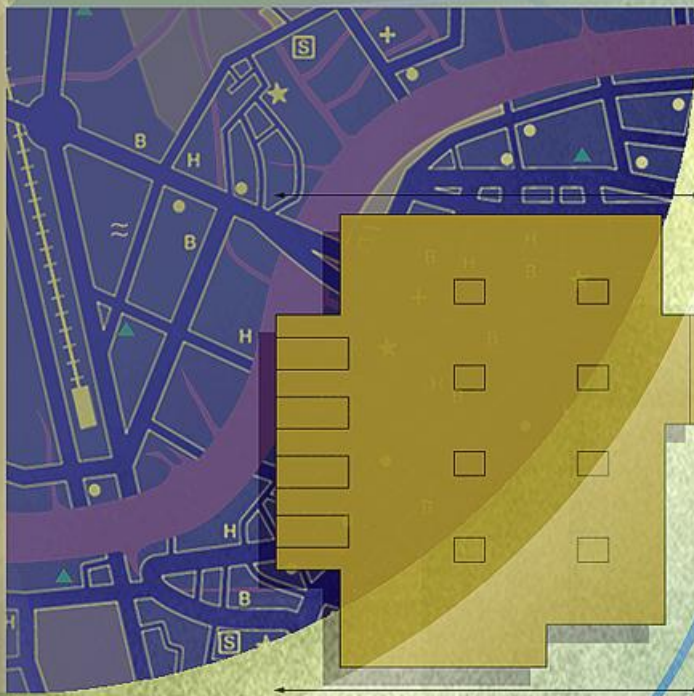
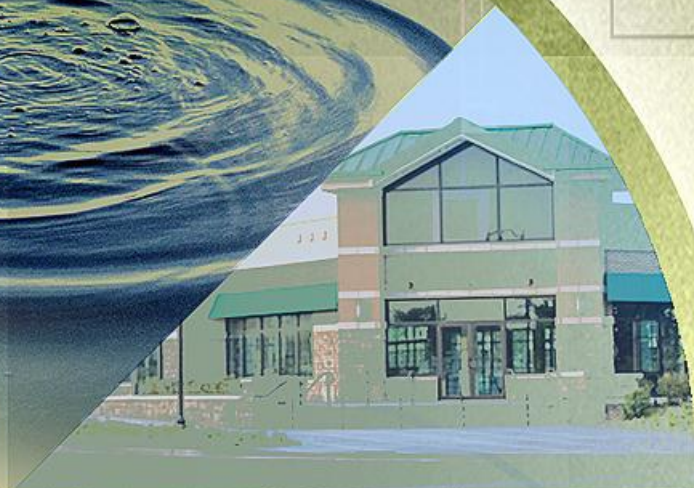
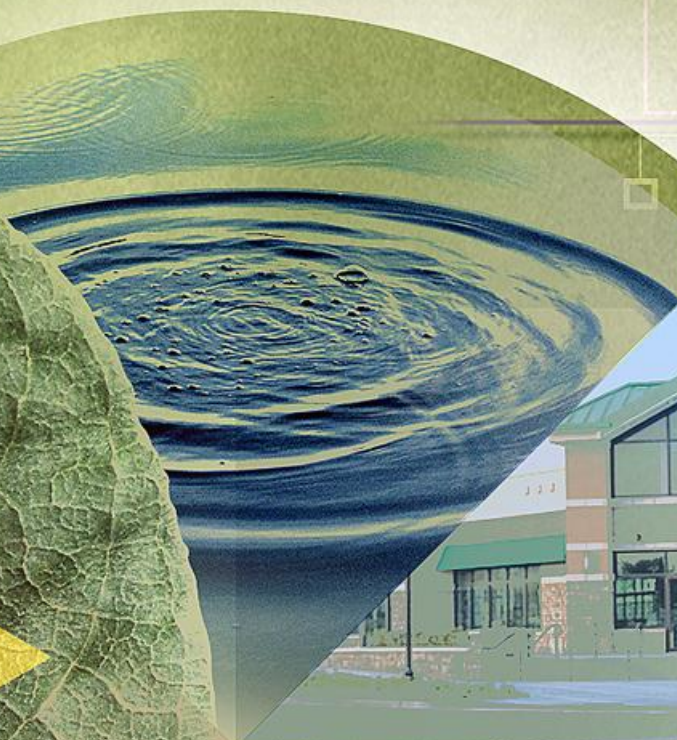
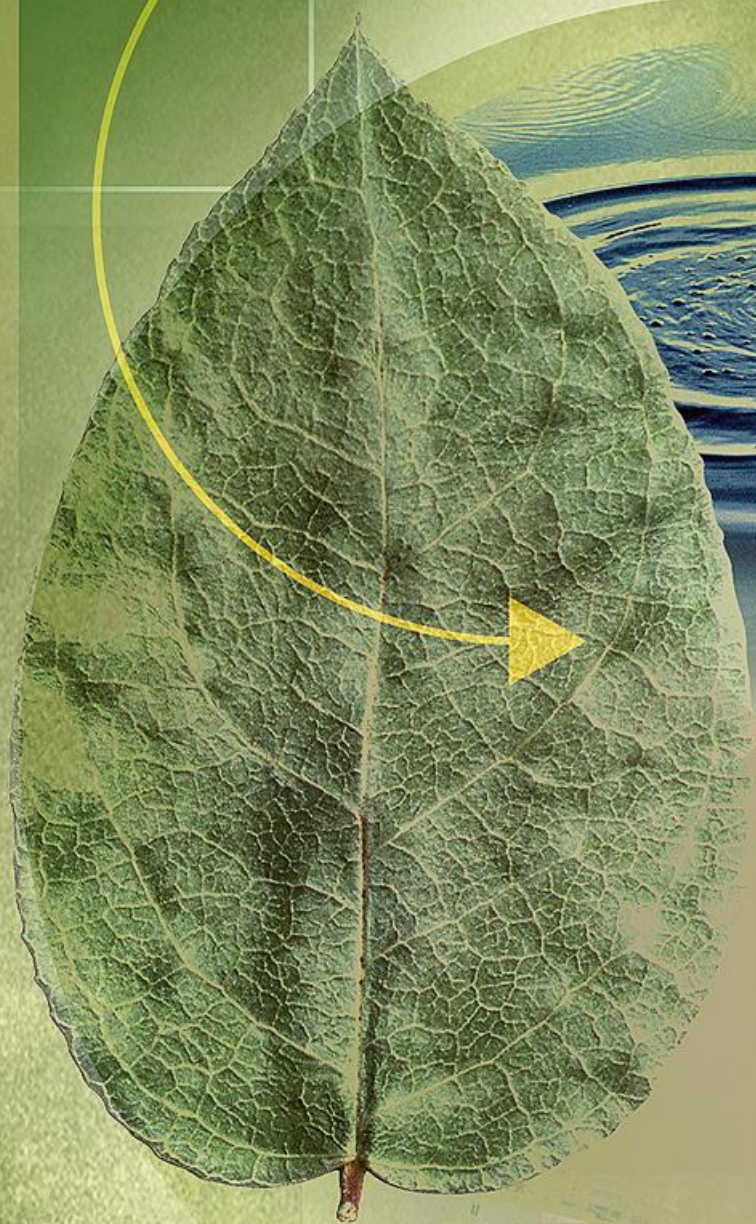
- **Sustainability will become integrated into the business.** As sustainability strategies expand in scope, responsibilities will span across the organization and supplement the current centralized sustainability teams. Facilities management, real estate, supply chain, merchandising, marketing, and other teams will integrate sustainable thinking into their daily practices and decisions.
- **The drive to manage supply chain impacts will transform retailer-supplier relationships.** Every stage of a product's lifecycle, from raw materials processing to end-of-life, provides opportunity for innovation. Retailers can help spur positive change, making the supply chain a platform for continuous sustainability improvement. The retailer-supplier relationship will continue to evolve, using sustainability as an opportunity for generating shared value.
- **Industry collaboration will become the standard.** Already the industry is starting to come together to address pressing social and environmental issues, such as managing product lifecycle impacts, human rights concerns in the supply chain, and the safety of products. This approach will become increasingly common; industry and stakeholder collaboration will help retailers identify and address the root causes of deeply embedded social and environmental challenges.
- **Business models will evolve as consumption habits change.** Business models will embrace closed-loop product design and manufacture, recapturing resources and products and incorporating the value of ecosystems services. Innovations in how goods are produced and consumed will progress the consumer goods industry toward sustainability.

BENEFITS OF SUSTAINABILITY

Retailers understand that sustainability provides a suite of benefits for their business, the communities they operate in, people they touch, and environment we all depend on. Retailers identify many benefits while pursuing more sustainable operations and products:

- **Develop an efficient business.** Looking at business operations through the lens of sustainability finds environmental and financial efficiencies through the reduction of energy, fuel, materials, waste, packaging, and other resources.
- **Actively mitigate risks.** Decreasing dependence on natural resources like fuel and materials, both internally and in the product supply chain, reduces exposure to price fluctuations and market volatility. Ensuring proper labor standards, managing at-risk suppliers, and ensuring the safe manufacture and use of products mitigates brand risk.
- **Source new innovations.** Sustainability is increasingly seen as a platform for identifying and driving innovative business practices. An eye toward reducing energy, water, waste, and toxic chemical use, as well as other environmental impacts leads to the development of new technologies and processes to save money, reduce risks, and identify revenue opportunities.
- **Recruit and retain top talent.** Employees, now more than ever, enjoy working for a company they can be proud of. They appreciate employers that value their opinions, ideas, and skills. Strong sustainability programs attract and retain top employees by providing them with opportunities to positively influence society.
- **Enter new geographies.** Retailers that constantly reinforce the value they bring to communities, beyond that of simply economic value or job creation, are more likely to be welcomed in new locations.

- **Enter new product markets.** As the green, natural, conscious, and healthy consumer segments grow, retailers will benefit from developing products and services that cater to these markets.
- **Improve reputation with the industry's stakeholders.** When sustainability efforts address the concerns of NGOs, suppliers, vendors, consumers, and other stakeholders, those stakeholders provide support rather than resistance to all dimensions of company growth—financial, social, and environmental.



Chapter One: Operational Footprint

The business case to use natural resources more efficiently while reducing dependence on nonrenewable materials is increasingly clear. For retailers, reducing direct environmental impacts like energy and water usage, waste generation, and land use provide opportunities to streamline business operations and save costs.

Developing strategic and operational plans to address the environmental footprint of retail involves understanding impacts, prioritizing responses, tracking progress, and identifying innovative ways to improve retail's operational footprint. Most important—and most immediately tangible—are the facility operations that organizations control directly and can influence the most, including reducing energy and water consumption, minimizing greenhouse gas (GHG) emissions, and increasing recycling rates to reduce waste.

Through the process of measurement, assessment, strategy implementation, and reporting, retailers are building a foundation that will support continuous improvement in sustainability efforts. These efforts translate into superior operational performance, business and community leadership, and provide opportunities to show how the retail business model and sustainable practices intertwine.

Facility Energy Use

The retail industry accounts for the largest energy bills and the second largest amount of greenhouse gas emissions in the entire commercial sector of the U.S. economy. Further, energy use is growing faster in the commercial sector than any other sector. These stark realities present an important challenge, and a great opportunity, for the retail industry to do what it does best—innovate and lead.

Over the past five years, the industry has made notable progress in lowering its utility bills and shrinking its carbon footprint with help from EPA's ENERGY STAR program. EPA looks forward to supporting the industry as it broadly embraces the value of energy efficiency and delivers significant financial and environmental savings.

Jean Lupinacci

Chief of U.S Environmental Protection Agency's ENERGY STAR
Commercial and Industrial program

Energy is more than just an operational issue; it is the lifeblood of retail stores and distribution centers. Actively managing energy reduces costs in addition to reducing greenhouse gas emissions. These efforts can be noticed by customers in many ways; energy efficiency can create a more comfortable shopping experience and a place for active engagement among the company, its customers, and its employees.

REDUCING ENERGY USE

Managing energy starts with an understanding of energy usage, which can involve sophisticated building management systems and energy submeters, or simple methods like tracking monthly energy bills. Establishing an energy use baseline allows retailers to set reduction goals and to begin developing implementation strategies. Often, resources are leveraged in a variety of ways, such as incentive programs run by local governments and utilities. In addition, some retailers integrate greenhouse gas (GHG) emissions tracking into their energy measurement, and tools like EPA's ENERGY STAR Building Portfolio Manager greatly simplify the calculation of building-related emissions. Target, for example, has committed to earn ENERGY STAR certification for at least 75-percent of their U.S. buildings by 2015 ⁽¹⁾.

Techniques for an energy-efficient retail space include:

- **Install building automation systems** that not only track energy use but also control temperature settings, monitor alarms, and help identify areas for energy savings. H-E-B's centralized energy management system will reduce their energy consumption by almost eight percent per store, per year ⁽²⁾.
- **Retrofit old heating, ventilation, and air conditioning (HVAC) systems** with newer, more efficient models to reduce the energy needed to heat and cool retail spaces. Preventative maintenance and component upgrades, as well as centralized monitoring, also increases system efficiency.
- **Install low-energy lighting systems**, including fluorescent and LED lamps, which use about 75-percent less energy than standard incandescent bulbs. Lowe's completed a five-year sales-floor lighting retrofit in 2010 that put more than three million new energy-efficient fluorescent lamps

in stores ⁽³⁾. Motion sensors are becoming more common in food refrigeration cases; Target has installed these in all of its new and remodeled stores ⁽¹⁾.

- **Incorporate daylighting and skylights**, reducing the need for artificial lighting during daytime operational hours, saving energy and money. Walmart has incorporated daylighting in all of their new store designs, saving an estimated 250 million kWh a year ⁽⁴⁾.
- **Install advanced refrigeration systems** for significant savings. For retail formats like grocery and convenience stores, refrigerators and freezers make up a significant portion of total energy use. Equipment with self-closing doors and motion-activated lighting and refrigerants with a lower climate impact will reduce GHG emissions.

Installing energy-efficient equipment is only one approach to energy saving; **engaging employees** also leads to significant savings. Publix, for example, reduced its electricity usage by nine percent in existing stores through its Get into a Green Routine program that promotes green habits, such as turning the lights off and closing doors at work ⁽⁵⁾.

Once energy-efficient equipment is installed, retailers monitor energy savings and verify the return on investment. In the case of many shopping centers, however, retail spaces are not submetered and energy is billed based on average usage across the entire shopping center. This arrangement provides little financial incentive for retail tenants to invest in energy reduction, as they cannot track the energy saved or benefit financially. In addition, leasing contracts are typically organized such that the landlord, not the tenant, is responsible for equipment upgrades. However, a trend toward green leasing will make it easier to share the benefits of energy efficiency.

Minimizing energy use is a common first step toward reducing GHG emissions from a company's facilities. Using renewable energy is the second step. Lastly, where renewable

energy is not provided or is not cost effective, renewable energy credits and carbon offsets can be purchased to further reduce GHG emissions.

STUDY: HOW GAP INC. SET THEIR CLIMATE IMPACT REDUCTION GOAL

Setting an energy or climate goal helps gain buy-in throughout the organization, communicate long-term intentions, and build public accountability. While Gap Inc. originally set a goal to reduce the GHG emissions of its store operations by 11-percent between 2003 and 2008, the company was able to reduce emissions by 20-percent in that time.

In 2011, Gap Inc. announced a second goal to build on its achievements: a further reduction in absolute GHG emissions by 20-percent from 2008 levels by 2015. To set the goal, Gap Inc. performed detailed GHG accounting for its stores, distribution centers, headquarters, and product transportation. That data was supplemented with Gap Inc.'s growth and expansion plans to forecast the company's business-as-usual energy consumption.

Concurrently, energy reduction pilot projects provided data to find even more opportunities. In one pilot, a voluntary program identified stores with high energy use and worked with managers to focus on energy conservation. In another, Gap Inc. is currently testing LED and CDMi technology in its pilot stores to evaluate the right efficient lighting solution going forward.

The sustainability team, in conjunction with Gap Inc.'s real estate and strategy teams, used these analyses to set long-term goals that are ambitious yet achievable, and to allocate resources for the highest impact.

On-site renewable energy is a long-term investment that hedges energy costs, saves money, reduces emissions, and provides reputational benefits. Rooftop solar energy systems and microturbines are among the most

common approaches. Multiple retailers are on the EPA's list of top 20 on-site generators of renewable energy: Walmart's California and Texas facilities place fourth and generate more than 36 million kWh; Kohl's generates more than 20 million kWh; Safeway generates just less than 10 million kWh; and Macy's California and Hawaii stores generate more than 5 million kWh⁽⁶⁾. Fuel cells are also becoming more common at larger facilities. However, on-site generation is neither financially viable nor technically feasible in all locations.

The retail industry is one of the strongest participants in the U.S. EPA's Green Power Partnership. Leaders like Whole Foods, Staples, Walmart, Lowe's, H-E-B, REI, and Giant Eagle have each made market-leading commitments to using clean, renewable energy. The American retail industry has the power—literally—to create the next generation of new, clean energy generation in the United States.

Blaine Collinson

Director

Green Power Partnership

U.S. Environmental Protection Agency

Purchasing **renewable energy credits** offsets GHG emissions and helps retailers progress toward their GHG goals. Programs such as the EPA's Green Power Partnership are resources for organizations to find alternative energy producers, promote collaboration, and expedite implementation. The EPA's top 20 retail partners use a total of 3.9 billion kWh of green power annually⁽⁶⁾.

A LOOK INTO THE FUTURE

As retailers continue to make significant progress toward carbon neutrality and recognize the business benefits beyond just financial savings, others will follow suit with carbon neutrality commitments. Strategic and comprehensive energy and carbon reduction initiatives, like submetering, efficiency retrofits, and renewable energy generation, will become increasingly common.

At the same time that energy consumption per square foot of retail space drops, progressively higher percentages of the energy that is used will be generated from low carbon sources. Investment in renewables, both by retailers and other sectors, will drive prices down, furthering the pace of renewable energy adaption. Doing so will ensure cost effective, reliable energy that is grid independent. In some cases, retail spaces may even serve as a net energy producer and feed clean energy into the local grid. But until the price of renewable energy generation has achieved parity with grid electricity, retailers will continue to invest most significantly in renewable energy in areas with strong financing and incentive programs.

THE ROLE OF RETAIL DEVELOPERS

In leased spaces, retail tenants can encounter barriers to eco-efficiency because of inflexibility in lease contracts or lack of organizational alignment. For example, a retailer located in a shopping center may want to retrofit lighting systems, but there is little incentive to do so if it shares an energy bill with the rest of the tenants in the complex. To achieve retail's energy reduction goals, therefore, landlords and retail tenants must collaborate.

To address this issue, in June 2011, RILA, the International Council of Shopping Centers, and Paladino & Co. brought landlords and retailers together for a roundtable on achieving sustainability goals. Those goals include:

- Increase measurement and visibility on both sides of the relationship.
- Develop continuous eco-improvement strategies that are financially beneficial.
- Add value to the shopping experience and both industries' shareholders.

Toolkits are being developed to address those goals.

Minimizing Waste

The core of retail's business is the sale and distribution of physical goods. That does not mean, however, that waste is a necessary output. Through the hierarchy of waste reduction—material reduction, reuse, recycling, and then lastly disposal—retailers can radically reduce the amount of landfill waste produced, resulting not only in benefits to the environment but also cost savings and new revenue sources.

From sales floors to distribution centers, actively engaging employees about waste reduction creates opportunities to involve and motivate employees, and to share positive effects with customers.

WASTE MINIMIZATION IN ACTION

Retail waste reduction programs first set out to **analyze waste streams**. Often this means working with waste haulers that track material volumes and perform audits of the waste content to illuminate reduction opportunities. However, for those retailers that share waste containers with others located in the same area, it can be difficult to gather waste volume data; in these cases, hands-on waste audits are particularly important.

Similar to energy reduction, **waste reduction goals** are set at the corporate level to communicate intentions, build accountability, and inspire action. The type of goal set depends mainly on an organization's culture. Some companies aim to reduce their waste by a particular percentage, like a reduction of landfill waste by 20-percent or more by 2015. Others commit to aspirational zero-waste goals. Company goals are then translated into store-level waste reduction plans.

Waste minimization starts with reduction and reuse. Retailers are updating procurement policies to minimize the volume of disposable material entering their facilities and engaging employees to reduce material consumption. Customers are also important allies in reducing waste; many retailers are introducing reusable shopping bags and some offer incentives to use them. CVS's GreenBagTag program offers

rewards and discounts when customers use their reusable bags ⁽⁷⁾.

For the materials that cannot be eliminated or reused, retailers are **maximizing recycling**. Everything from plastic, aluminum, and cardboard to cooking oil can be recycled; donation banks can find a new life for used furniture and durable goods; and food waste can be composted or even used to make alternative fuels.

Stores with proactive recycling efforts are saving, if not making, money when all recycling costs and revenues are considered (including new revenue streams, savings from avoiding landfill costs, and money saved on hauler fees). Current prices for recycled cardboard alone essentially mitigate any costs incurred for recycling other commodities, and regional variations in recycling costs can be balanced out by accounting for recycling on a nation-wide basis.

However, retailers depend on local recycling infrastructures, including the programs landlords offer for retailers in shopping centers. To maximize opportunities for recycling, retailers are collaborating with landlords and fellow tenants. Some companies also partner with municipalities to develop local recycling and composting infrastructure or expand the types of materials that can be recycled.

STUDY: HOW SAFEWAY DIVERTS THEIR WASTE FROM LANDFILL

Last year, Safeway diverted approximately 490,000 tons of materials from landfills and are progressing toward a goal of zero operational wastes. Recycling not only improves Safeway's environmental footprint, it reduces costs.

To achieve their waste reduction objectives, Safeway has engaged its stores, corporate offices, distribution centers, and manufacturing plants in a range of diversion programs. The company has developed a compost program and performed trash audits in each of its U.S. divisions. Store sustainability champions help ensure recycling procedures are followed and training programs reinforce proper recycling practices. Certain messaging has also proven to foster employee enthusiasm: framing the importance of recycling as “how Safeway is making a difference” and “how you can make a difference.” Its stores recycle materials like cardboard, plastics, compostables, food wastes, paper, construction materials, and more. In its southern California (Vons) operations, it is also piloting an initiative to turn fryer grease into biodiesel fuel.

Safeway has also looked upstream for waste reduction opportunities. To further reduce landfill waste, the company has redesigned the packaging of some of its private brands to be compostable or recyclable.

Particularly innovative programs are directing operational wastes to product manufacturers, thereby **closing the waste-to-product loop**. Worldwide, a producer of pet products, creates products with Walmart's recycled water bottles, cardboard, hangers, and bags⁽⁸⁾.

As with energy, **employee engagement** is an essential part of waste minimization. Effective recycling programs are designed for ease, understandability, and convenience, and participation is integrated into employee training, with clear store performance feedback.

A LOOK INTO THE FUTURE

Many retailers aspire to a long-term vision of **zero waste**, with all materials leaving the store being either used directly or recycled for new uses. However, there are many challenges to overcome, including the complexities of collecting and recycling different material types, and the lack of nationwide infrastructure.

To achieve zero waste, retailers are looking not only at their operations but also deep into their supply chain. Reviewing product and packaging design reduces waste by eliminating the need for those materials from the beginning. Ultimately, anything that comes into stores will be sold, reused, or recycled; no materials eventually destined for the landfill will enter the retailer's doors.

THE ROLE OF MUNICIPALITIES & WASTE HAULERS

In areas where full municipal recycling and composting programs are lacking, retail and community efforts to reduce waste are inhibited. Even where the proper infrastructure is in place, it can still be difficult to find a waste hauler that will provide tracking and measurement, along with affordable recycling options. To overcome these challenges, the retail industry's needs include:

- Inclusion in the discussion of any new programs, bans, legislation, etc. that could affect retail waste operations.
- Waste stream tracking data by material and store when possible.
- Recycling options for cardboard, shrink-wrap, mixed plastic, mixed paper, pallets, e-waste, foam, and mixed metals.
- Composting options for organic food wastes.

EPA WasteWise is a valuable resource to learn more about waste reduction.

Land Use & Development

The key to optimizing land use and development is making new and existing sites as efficient as economically possible while physically integrating them into the community. Doing so not only saves money through energy and transportation efficiencies but also supports the vibrancy of the local area.

One aspect of this trend is the move to smaller, more efficient stores on brownfield sites. These stores help retailers build their business, minimize their impact, and integrate closely into communities.

MAKING THE MOST OF THE PROPERTY

Retailers are acting to reduce their store and distribution center energy costs, water consumption, and carbon footprint. By understanding what it takes to make old stores more efficient, they are moving to creating new sites that can further minimize consumption simply through considering a few key areas.

Store site selection weighs multiple factors. While sustainability attributes of a site are not the only criteria, they are becoming more prominent in site selection. Brownfield sites, urban integration, recycling infrastructure, alternative transportation, and opportunities for renewable energy use are desirable characteristics for new store and distribution center locations.

Shrinking the size of stores and distribution centers is an industry trend. Big and medium box retailers are transitioning to smaller, specialized stores like Petco's Unleashed, which caters to urban areas and offers a high-end selection of pet products⁽⁹⁾, and Best Buy Mobile, which specializes in mobile sales and services in shopping center locations⁽¹⁰⁾. Technology like direct-to-store logistics, which bypasses distribution centers, buying trends like internet shopping, and smaller volume packaging are enabling the shift to smaller stores.

Once a location is chosen, retailers implement strategies to efficiently develop and maintain their footprint:

- **Consider sustainability criteria in the design & construction phase.** From the planning process to move in, the use of local and recycled construction materials, white membrane roofing, efficient HVAC systems, state-of-the-art coolers and refrigerators, polished concrete floors (that require less maintenance), efficient landscaping, solar panels, wind turbines, and other technologies are employed. Whole Foods' new store construction, for instance, includes innovative green materials, such as medium density fiberboard, made from 100-percent recovered and recycled wood fiber; marmoleum, a natural linoleum product; and Forest Stewardship Council-certified wood⁽¹¹⁾.
- **Increase prevalence of LEED building standards.** Developing to the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) certification is a growing trend in the industry. Environmentally-friendly practices include reusing store waste, using recycled material for construction purposes, sourcing alternative and renewable energy sources, and state-of-the-art refrigeration and cooling systems. Hannaford opened the world's first supermarket to meet the LEED Platinum certification criteria. Among other innovative practices, the store uses two geothermal wells, located 750 feet underground, to regulate indoor temperature⁽¹²⁾.

- **Increase the availability of alternative transportation to stores.** Communities thrive when citizens have access to many forms of transportation. Meijer uses its excess parking areas as commuter parking lots and bus stops for local veterans associations ⁽¹³⁾. IKEA, after determining that seven percent of its carbon footprint is from customer transportation to and from stores, is working with World Wildlife Fund for Nature (WWF) to define a comprehensive approach to customer transportation ⁽¹⁴⁾. Regardless of public transportation availability, retailers are promoting eco-friendly modes of transportation by installing bike racks and reserving premium parking spaces for hybrid and electric vehicles. Walgreens, among others, recently announced its plans to install electric vehicle charging stations at 800 of its stores by the end of the year ⁽¹⁵⁾.
- **Implement smart landscaping** to improve water efficiency. Storm-water retention ponds and efficient irrigation systems help reduce runoff and water consumption. Target has 324 acres of storm-water retention ponds helping to reduce excessive runoff and promote natural absorption of water in developed areas ⁽¹⁶⁾. Native plants and hearty shrubbery also minimize water use. When considering landscaping, H-E-B prioritizes water conservation and runoff filtering, and promotes native plant life ⁽²⁾.

Although efforts are continuous, retailers face challenges in their land use initiatives. Sometimes outdated municipal regulations can hinder efficient building efforts. For example, municipalities may require a certain number of parking spaces based on the size of the building; often this number is greater than the actual need, increasing a store's physical footprint. Also, certain municipalities have vegetation standards, which can require more water consumption than native plants. While both situations are intended to enhance the surrounding community, each unintentionally hinders sustainability progress.

STUDY: HOW THE HOME DEPOT MINIMIZES ITS DEVELOPMENT FOOTPRINT

The Home Depot is aware of the impact of its land use and development practices on the surrounding community. It therefore seeks to minimize its footprint through building and landscaping design, construction, and maintenance.

Environmental consciousness begins with the company's buildings. Its stores use local materials for concrete slabs and walls, and recycled metal for bar joists and decking. Carbon dioxide sensors have been installed to admit the minimum amount of fresh air required on an as-needed basis, keeping heating and cooling energy use down. And high efficiency rooftop air conditioning units and white roofs reduce the energy load and urban heat island effect.

In its parking lots, all the lights are shut off an hour after closing, while security lights remain on at their lowest possible setting. The number of parking spaces required for each store has been cut, reducing impervious surface space and increasing green space. And all new stores feature bike racks—where appropriate—and have air lock vestibules and exits to reduce air infiltration. Energy management systems are used in all stores to control lighting and HVAC cycles.

Additionally, The Home Depot has established eight planting zones nationwide that seek to eliminate or reduce the irrigation needed to maintain store landscaping, and allow for the use of local hardy plant species. More efficient irrigation heads have been installed that produce a rectangular spray, reducing water consumption by approximately 35-percent.

Finally, the company is piloting the installation of rainwater retention tanks in 21 of its Florida stores. Each system will save 500,000 gallons of water per store per year, and a broader rollout is scheduled after completion of the pilot project.

A LOOK INTO THE FUTURE

The face of retail stores will change in accordance with evolving community and consumer needs, as well as with sustainability priorities. Retail waste and carbon reduction goals, for example, will require retailers to look beyond common practice and ahead to innovative building designs and technologies. The increasing implementation of LEED certification and other holistic design techniques will continue to drive progress in new buildings and renovations.

Efficient development will require retailers to evolve the criteria used for selecting new facility sites. The desire for urban integration will continue to drive brownfield development and careful consideration of local amenities like public transportation. Sustainable construction will also be instituted from the ground up, placing increasing prominence on recycled or locally-procured building materials, fuel cells, solar panels, and more. The most sustainable building practices will incorporate dramatic energy, water, and waste efficiencies while improving building functionality, air quality, and comfort.

THE ROLE OF MUNICIPALITIES

For this vision to become reality, companies must collaborate with additional stakeholders. Retailers, municipalities, developers, and other community stakeholders need to work together to improve alternative transportation, zoning, and municipal services that promote sustainability both at retail stores and more broadly in the community.

In particular, municipalities will need to:

- Adjust parking lot size requirements based on the specific needs of the local area and sustainability goals.
- Modify landscaping requirements to accommodate native, low-maintenance plants.
- Revise building codes to foster innovation in building design and construction, with a particular emphasis on green and energy-efficient design and urban integration.
- Offer public transportation options that are affordable and convenient for a range of local residents.
- Align municipal regulations with state and federal regulations.

Employee Engagement

There is phenomenal creativity happening in companies that engage employees in environment and sustainability education. This translates into clear savings in energy and other operating costs, and leadership in sustainability when executives and managers at all levels are committed to employee engagement.

Thinking ahead, employee engagement will be even more vital as consumers, becoming more aware of the environment, ask questions about everyday company practices and the green attributes of products they seek to buy.

Diane Wood

President

National Environmental Education Foundation (NEEF)

Retailers view the collective energy of their workforce as one of their biggest assets in moving the needle on sustainability. In the United States alone, retail employs more than 10 million people. And, according to retailers, their employees have shown a great deal of enthusiasm for sustainability and a desire to get involved.

Today, retailers are doing a great deal to engage their employees in sustainability initiatives, from hosting sustainability fairs at their headquarters to developing employee videos, intranet sites, blogs, and volunteer days. Through these efforts, companies have reaped many benefits: they have generated innovative ideas for running business segments, brought new products to the shelves, saved money, and motivated staff and customers alike.

ENGAGING EMPLOYEES ON THE JOURNEY

Ultimately the specifics of any engagement program depend on an organization's particular culture. Successful employee engagement programs have executive leadership, foster collaboration across functional areas, harness grassroots passion, and embed sustainability in position descriptions. They also communicate to employees regularly with a balance of "push" communications and feedback mechanisms.

In particular, retailers are engaging their headquarters and associate employees through the following channels:

- **Senior executive councils**, composed of senior leadership that cut across functional areas, increase the credibility of sustainability

programs and provide channels for input and feedback from employees across the organization.

- **Sustainability fairs and special events** like an Earth Day activity provide opportunities for marketing to and engaging employees in corporate sustainability programs. Last year several retailers, including IKEA, Walgreens, and others, participated in Earth Hour, during which stores and employees are encouraged to turn off their lights for one hour on a Saturday in April ^{(17), (18)}.
- **Extracurricular volunteer activities** raise community awareness and camaraderie among employees. Target employees

volunteer to transform their local school libraries with their design and construction skills⁽¹⁹⁾. Walgreens recently created a community leadership position in its stores; each community leader helps to address needs in the local community and organize volunteer programs⁽²⁰⁾.

- **Volunteer-led sustainability or health affinity groups** put peers in charge of organizing activities and involving other like-minded employees.
- **Green teams or ambassador programs** empower employees to promote sustainability in their area of work, whether that is the store, distribution center, or home office.
- **Friendly store to store competitions** to promote associate teamwork and drive improvements across the store portfolio.

Communication through multiple channels is also crucial for engaging employees. Messages can be pushed to employees through traditional channels like company newsletters, posters, training programs, and executive and store manager outreach, as well as modern channels such as intranet sites, social media, sustainability reports, and more. Surveys, conversations, emails, intranet comment sites, and special events allow for crucial employee feedback.

However, there are significant challenges to engaging retail employees. Retail, by the nature of the industry, has high turnover, making consistent employee involvement difficult. Also, associate employees often don't have company email accounts or access to computers at work, making it difficult to reach them in a consistent manner.

STUDY: HOW PETSMART ENGAGES THEIR EMPLOYEES

PetSmart launched a suite of strategic employee engagement programs in 2010 beginning with the development of a Sustainability Council. The council is composed of key associates from across the company, who lead their particular business unit. They disseminate information about PetSmart's sustainability efforts and act as a conduit for feedback to the sustainability team. This set up provides each team with diverse business perspectives and a channel to reach a wide internal audience.

To immerse employees in ways that relate sustainability themes to their work and home lives, the sustainability office has developed engagement activities that include:

- Sustainable elements in their cafeteria like organic foods and educational signage, as well as prominently placed recycling containers in their headquarters office.
- A Trip Reduction Program to help employees find alternative modes of transportation to work.
- Teaser fliers posted throughout the office highlighting various sustainability events, initiatives, and factoids.
- Annual employee engagement events: in 2010 PetSmart hosted a Sustainability Fair that showcased local energy-efficiency vendors, utilities, and merchandise vendors. In 2011, it held a Drive Thru Recycling event that brought 10 unique recycling vendors to their campus.
- An informal, bimonthly Fresh Air Forum that brings together passionate employees to meet each other, discuss green issues in work and home, and learn from a guest speaker.

Further, the sustainability team released an internal report to increase awareness of PetSmart's environmental successes. The report acts as a talking point for the Sustainability Council and generates internal dialogue.

A LOOK INTO THE FUTURE

With the Millennial generation beginning its careers, more employees than ever have passion and enthusiasm for their company's sustainability activities. Americans are seeking employers that are socially responsible, and retailers recognize this. Employee engagement will be a crucial component as companies integrate sustainability into their organizations.

In particular, retailers will seek to involve employees in sustainability through a diverse and broad set of activities, both through informal and formal channels. Green teams will give employees the opportunity to connect with like-minded peers to share their business and lifestyle sustainability ideas. Events like

Sustainability Fairs will provide opportunities for employees to meet face-to-face and grow an ever-evolving dialogue. And personal goal-setting programs will allow employees to develop a definition of sustainability that aligns with their personal values and needs. Strong programs will engage employees in ways that improve their sustainability performance at and outside of work.

And formally, sustainability criteria will increasingly be included in employee performance evaluations and executive bonuses, providing incentives and holding employees accountable for achieving sustainability objectives and driving innovation.



Chapter Two: The Product Journey

Products are at the heart of retail and present a significant sustainability opportunity throughout their lifecycle, from design and manufacture, to transportation and sale, to use and end-of-life. Sustainability opportunities range from reducing impacts at different points in the lifecycle journey—for example, in the case of reducing packaging, to fundamentally rethinking and redesigning products.

The opportunities are myriad but are often hard to act on, not just for retailers but also for product designers and manufacturers. The core challenge is to improve the performance and value of the product to reflect consumers' needs, while also continually improving the product's environmental and social impact.

Design & Manufacturing

While the business case for sustainability is clear, retailers also increasingly understand that the customer of tomorrow will demand more information about the environmental and social impact of the products they buy.

The consortium is working with major retailers including Ahold, Kroger, Safeway, Marks and Spencer, Walmart, and others to build a science-based system for measuring the sustainability of products, which is already helping them drive sustainable changes in their supply chains where it matters most.

Bonnie Nixon

Executive Director

The Sustainability Consortium

The ecological performance of a product, from manufacturing through consumer use and finally disposal, is significantly influenced by the product's design. Depending on the product category, retailers calculate that a significant percent of their total environmental footprint can be traced to their supply chain and consumer use. Supplier manufacturing sites must also be assessed and monitored to ensure that working conditions are fair and conform to accepted standards.

The challenge of sustainable design and manufacturing is that, while retailers can directly affect their immediate operations, influencing the supply chain can be much more difficult. Private label product design is under a retailer's control, but the design of the majority of products sold is not. And consumer product value chains are complex webs that span the globe, from raw material sourcing through manufacturing and distribution. Materials flow through numerous countries and cultures, making product components difficult to track and social compliance important to enforce.

However, consumer product and retail industries are fostering more transparent, communicative product supply chains with the aim of advancing social and environmental responsibility. In an effort to be strategic and proactive, retailers are developing technology and process infrastructures that promote continuous improvement in product supply chain costs, risks, safety, quality, and innovation—from design through manufacturing.

ENGAGING MANUFACTURERS IN THE CONVERSATION

Retailers are factoring sustainability criteria into their private label product design, as consumers look for product attributes like organic, sustainably sourced, high recycled content, and energy efficient. Many retailers

now offer a line of more environmentally-friendly products, such as Staples's Eco Easy line or Safeway's Bright Green natural product line, which earned the right to display the EPA's Design for the Environment label⁽²¹⁾.

In addition, a number of retailers are looking beyond dedicated product lines to integrating sustainability across all offerings. IKEA, for example, has implemented an “e-wheel” to understand and track the impact of its products throughout their lifecycle⁽²²⁾. Product lifecycle assessment can evaluate environmental impacts from design to use to disposal and identify hot spots that offer the greatest potential for improvement.

When it comes to manufacturing, most products are supplied by third parties. The retailer-supplier relationship of the past was characterized by an arms-length transaction between the retail buyer and supplier based primarily on the supplier’s price and ability to satisfy product requirements. Today’s emerging retailer-supplier relationship, however, is defined by increased collaboration and deeper conversations about supplier practices, including eco-efficiency and working conditions—promoting continuous improvement and reducing risk for both parties.

Companies are assessing, reporting, verifying, and addressing the social and environmental impacts of their product supply chain. Some modes of engagement include:

- **Codes of conduct** guide manufacturers in acceptable labor, health, safety, and environmental practices. Gap Inc.’s Code of Vendor Conduct has a focus on the health and labor standards within factories⁽²³⁾. To verify implementation, retailers audit manufacturing facilities to ensure that they meet standards and expectations. This process includes in-person audits as well as questionnaires integrated into risk management processes.
- **Restricted substance lists** help ensure that no chemicals of concern are used in goods production. NIKE’s Sustainable Chemistry Guidance is intended to ensure that products comply with the strictest global legislation, to limit or eliminate targeted substances, and to enable greener product innovation⁽²⁴⁾.

- **Vendor surveys** can help identify suppliers that are going beyond compliance in their environmental and social programs.
- **Building manufacturers’ management capacities** enables them to effectively improve the environment, health, and safety of their operations.
- **Technical assistance and financing to retrofit plant systems.** Walmart’s Supplier Energy Efficiency Project conducts energy audits and finances retrofits of its suppliers’ facilities. SEEP aims to save supply chain costs by sharing Walmart’s energy-efficiency expertise with its suppliers⁽²⁵⁾.
- **Supplier forums**, conferences, meetings, etc. help retailers explain their evolving sustainability priorities and solicit questions and feedback from the supplier community.
- **Reporting impacts, goals, and progress** is another key component of retail’s supply chain strategy. Reporting informs stakeholders about retailers’ sustainability efforts and creates public accountability. Public metrics-based goals can add further clarity to long-term objectives, demonstrating a credible commitment to stakeholders.

Because working with the supply chain involves numerous parties with varying levels of control, **collaboration** is crucial. Best Buy, Gap Inc., jcpenny, Safeway, Target, REI, VF Corporation, Walmart, and many others are finding collaborative working groups like The Sustainability Consortium, the Sustainable Apparel Coalition, and the Global Social Compliance Program to be essential for developing comprehensive and consistent industry and product standards. These groups bring the business, government, nonprofit, and academic sectors together to share their expertise and resources. Doing so greatly adds to their combined efforts, but can be logistically and organizationally challenging.

STUDY: HOW WALMART SET & ACTS ON ITS GOAL TO REDUCE CARBON EMISSIONS IN ITS SUPPLY CHAIN

In February 2010, Walmart set a goal of removing 20 million metric tons of GHG emissions from its supply chain by 2015. For the year prior to launching that public commitment, Walmart worked with its NGO partners to research and select the ambitious and meaningful goal. The commitment was determined as 150% of Walmart's projected operational carbon footprint growth (scope I and II), and was intended to be a tool for Walmart to engage its suppliers and customers in dialogue around sustainability.

Walmart's supply chain GHG reduction strategy includes three approaches. First, it has reviewed its most major product categories by volume to estimate the value chain carbon flows and seek hot spots. Identifying the areas with the most potential allows the company to target their resources and have the greatest impact. Efforts have been launched across many categories, developing projects and systems that are transferable across suppliers and countries.

Second, Walmart seeks to find innovative approaches from outside organizations like nonprofits and expert consultants. The diverse sustainability networks that Walmart has formalized introduce thought leadership, expertise, and resources that Walmart cannot access on its own.

And finally, in parallel, the company is educating merchants about carbon reduction objectives and strategies. Merchants, who are the direct touch point to Walmart's suppliers, can educate their suppliers in turn.

A LOOK INTO THE FUTURE

As consumer and regulatory pressures grow, product design will incorporate multiple environmental attributes, appropriately weighing energy, carbon, material, chemicals, recyclability, water, waste, and other needs, with functionality and performance criteria. Green chemistry, "cradle-to-cradle," and design for the environment techniques will become increasingly prevalent in the design process for both private label and branded products.

The level of transparency in consumer product supply chains will continue to rapidly expand, increasing visibility into working conditions, human rights, and environmental impacts in product manufacturing. A host of factors will drive this trend, most notably consumer, regulator, and investor demands for product and manufacturing information.

Relationships between retailers and suppliers built on trust will foster more open and free information sharing, especially where the retailer has made the commitment to work with their suppliers over the long term. Collaborative groups like The Sustainability Consortium and the Sustainable Apparel Coalition will bring the business, government, nonprofit, and academic sectors together to share their expertise and resources.

Both parties will develop and share supply chain goals to align priorities and track progress. Ultimately, retailers and their suppliers will continuously improve product manufacturing to reduce the process's environmental and social impact.

THE ROLE OF PRODUCT MANUFACTURERS

With manufacture often serving as the most significant component of the product lifecycle impact, retailers seek to continually reduce the environmental impact and improve the working conditions of manufacturing operations. In particular, retailers will look to suppliers to:

- Measure and actively reduce their energy use, GHG emissions, water use and wastewater discharge, emissions, solid waste, and hazardous material footprints.
- Implement environmental management systems and set targets for reducing impacts.
- Identify and resolve human rights issues in production; ensure strong working conditions throughout the supply chain.
- Engage their subcontractors in more environmentally and socially responsible operations.

References for sustainable manufacturing operations and how to get started engaging your suppliers include:

- Sustainable Apparel Coalition Apparel Tool, currently in public beta testing
- The Sustainability Consortium
- The Fair Factories Clearinghouse
- The Fair Labor Association
- Verité's Fair Labor Toolkit

Additionally, you can work with your industry's trade association to develop industry-wide programs that address your needs and align with the leading standards.

Packaging

Retailers occupy a unique position between consumers and product supply chains and have a critical role in sending signals about the importance of sustainability issues to both. We have seen aggressive action from retailers to drive resource efficiency within supply chains and reduce and recover distribution packaging. However, action with regard to consumers has been much more limited.

Significant opportunities exist for retailers to more aggressively communicate to consumers about the importance of conservation and recycling as an economic issue. I hope we are seeing an emerging trend for clear and collective priorities from the retail sector on communicating the importance of recycling to consumers, which would go a long way to bring a stewardship ethic to the fore in the U.S. This type of collective action will become increasingly important as economically strapped state and local governments look to industry for support in managing packaging.

Anne Johnson
Program Director
GreenBlue

Packaging is crucial to the product supply chain. It helps protect and maintain goods during shipping, on retail shelves, and before consumer use, and plays an important role in communicating product attributes to the customer.

However, inefficient packaging increases transportation costs and waste. The number of goods that can be transported in a single load, for example, is directly related to the size and shape of product and transportation packaging. Warehouse and store inventory sizes are also partially determined by product packaging, potentially leading to larger-than-necessary buildings and related land use impacts.

Reducing the amount of packaging and using smarter packing methods also reduces costs, emissions, and material use. This optimization process includes an evaluation of current materials and packaging designs, analysis of alternatives, and education and engagement with product suppliers, transportation vendors, retail buyers, customers, and other stakeholders.

SMART PACKAGING

As they do for many other environmental impact areas, retailers begin by **measuring and tracking product and transportation packaging**. Doing so is necessary for developing a baseline and setting achievable, yet motivational goals.

Not all retailers have complete control over packaging. In many cases, packaging and shipping methods are determined by the product manufacturer. Therefore retailers need to engage product manufacturers and transportation providers in order to see results. However, when retailers do have a significant influence over packaging, such as with private

label products, they can achieve significant reductions. Over the last year, Best Buy eliminated 886 tons of PVC (polyvinyl chloride) and removed 745 tons of other plastic from their exclusive brands packaging. They are also using recycled materials, nonsolvent coatings, and organic inks when possible ⁽²⁶⁾.

Reducing the package size and the amount of material used can result in significant savings. Apple changed the packaging for its popular iPhone 4, translating to 80-percent more boxes per shipping pallet relative to the original version ⁽²⁷⁾.

Rethinking packaging is another innovation in process. When Puma was looking at the packaging for its shoes, it decided to reinvent the shoe box. Working with a design firm, it transformed the box into a bag, at once extending the use of the packaging while enhancing the consumer experience of unveiling the product ⁽²⁸⁾.

Another important factor in packaging design is **materials selection**: lighter, safer, lower impact, and recyclable materials are preferable. PVC is often targeted for reduction or elimination because of the toxic nature of the material in production, use, and disposal. Limited Brands eliminated its use of PVC in Bath and Body Works products, while Victoria's Secret's personal care products line has reduced its PVC usage by 4.3 million pounds per year ⁽²⁹⁾. In order to reduce the amount of shrink-wrap used, Staples is piloting a program to use reusable shipping sleeves and totes for Staples Advantage delivery customers ⁽³⁰⁾. Some companies are selecting packaging components made of recycled materials. American Eagle Outfitters' shoe boxes, for example, are made from 100-percent post-consumer recycled material ⁽³¹⁾.

Product suppliers must also be engaged to develop more sustainable packaging materials and designs. Best Buy held a summit with their Chinese manufacturers to discuss packaging requirements and to reinforce their packaging

material guidelines, which restrict the use of heavy metals and other materials ⁽²⁶⁾.

Collaborating with peers and suppliers to develop industry standards is the long-term solution to reducing packaging and environmental impact. A number of retailers, including REI, Staples, Target, Starbucks, and NIKE, are members of the Sustainable Packaging Coalition, which strives to improve packaging performance through design and metrics for evaluating its impact. The Global Packaging Project, a group of manufacturers and retailers, have developed a common industry language for sustainability in packaging, and kicked off pilot projects to test more sustainable packaging materials and techniques.

A LOOK INTO THE FUTURE

Retailers and manufacturers alike will continue to recognize the financial and process benefits to packaging reduction and will expand their efforts to redesign products and packages. At the same time, packaging will continue to play an important role in communicating the sustainable attributes of products to consumers.

Because packaging touches all parts of the product lifecycle, the key to effectively reducing packaging is collaboration around the way packaging is designed, used, and disposed. In addition, to support transformation, the industry needs a consistent method for evaluating the impact and benefits of packaging.

STUDY: HOW STAPLES ENGAGES ITS SUPPLIERS TO REDUCE PACKAGING

Staples recognizes that driving more sustainable packaging requires suppliers' involvement. To engage suppliers in the development of more sustainable packaging, Staples launched their Race to the Top program in the Fall of 2010.

That program promotes healthy competition by calling on suppliers to develop innovative packaging techniques that use fewer or alternative materials, profitably driving more sustainable SKUs. In addition to traditional packaging criteria like cost, weight, size, and function, suppliers compete on dimensions of innovation and environmental attributes.

In order to stimulate innovation, Staples and select suppliers made their supply chain operations visible to each other. Doing so allowed breakthrough thinking: Staples better understood the supply chain impacts of its packaging requirements and suppliers identified opportunities for packaging changes based on Staples' processes. Working teams, composed of Staples and supplier associates, were established for each supplier, with the goal to identify specific packaging changes that benefited the customer and the businesses. The teams studied the entire supply chain as a single process and found innovations that reduce packaging requirements. Once an innovation is achieved at the supplier SKU level, Staples seeks to scale it across the entire product category.

Some of the breakthrough ideas came in the form of reduction or removal of unneeded secondary packaging, reduction in master carton basis weight, reduction in the size of a primary pack, and ink reduction on delivery packaging.

THE ROLE OF PRODUCT MANUFACTURERS

While packaging is necessary to maintain the integrity of a product through distribution, it also contributes to a product's ecological footprint. Retailers will look for their manufacturers to evaluate and minimize the lifecycle packaging impacts by:

- Avoiding packaging materials that contain hazardous materials.
- Using environmentally preferable treatments.
- Reducing the volume of packaging material while maintaining consistent function.
- Increasing the proportion of more environmentally-friendly materials, including post-consumer recycled content.
- Designing packaging to enhance reuse and recyclability.
- Redesigning products and packaging to increase packing rates.

The Global Packaging Project and the Sustainable Packaging Coalition will provide companies that are new to sustainable packaging with the resources to get started.

Transportation

EPA supports the retail sector's efforts in integrating sustainable goods movement into their business models. Leading retailers are using the SmartWay Transport Partnership to assess their supply chain fuel efficiency and emissions footprint while also working directly with their service providers to incentivize and encourage freight sustainability. Their joint efforts are helping industry to reduce costs, while enhancing energy security and reducing emissions.

Margo T. Oge

Director of the Office of Transportation and Air Quality
U.S. Environmental Protection Agency

Once a product is manufactured it makes its way to the consumer via multiple stops, including time in the hands of suppliers, distribution centers, stores, and finally the consumer. Retailers see efficient transportation as a huge opportunity for savings. A more efficient fleet and transportation system means less fuel used and shorter time to market. Through external collaboration and operational improvements, retailers are optimizing fleet efficiency and further reducing their carbon footprints.

IMPROVING TRANSPORTATION METHODS

To reduce transportation emissions retailers are improving efficiency in five ways: product sourcing, packing efficiencies, route optimization, low carbon transportation methods, and shipping technology improvements.

Focusing on **locally sourced goods** can cut transportation-related GHG emissions simply by reducing the number of miles traveled. Safeway, which has brought produce to their shelves from hundreds of local growers across the country, sees local sources as an opportunity for GHG emissions reduction and supporting the vitality of regional farms ⁽²¹⁾.

Smart packing methods make transportation more efficient by maximizing the amount of product each shipping load can carry. REI redesigned its bike boxes, thereby reducing packaging by 68-percent and increasing the number of bikes per load by 10-percent ⁽³²⁾. Safeway also reevaluated their packing methods to have more products per pallet and

pallets per truck, reducing its 2010 carbon emissions by 9,667 metric tons ⁽²¹⁾.

Route optimization involves assessing product transportation patterns and combining routes where possible. By reevaluating routes, optimizing space truck loads, and increasing fuel efficiency, CVS eliminated 11,000 routes and saved 500,000 gallons of fuel ⁽³³⁾.

Choosing the appropriate mode of transportation can also cut fuel consumption, costs, and carbon emissions. Air is the most expensive and carbon-intensive transportation method, followed by trucking, and then rail. However, other considerations like speed of delivery must also be taken in account when determining the appropriate method of transportation.

Setting transportation efficiency goals, similar to store energy and landfill waste reduction goals, can drive innovation and align company departments. Target, for example, set a goal to improve the efficiency of inbound

transportation to distribution centers by 15-percent and of outbound transportation by 20-percent by 2015. It also aims to support the adoption of cleaner fuels and more fuel efficient practices⁽³⁴⁾.

Retailers can move goods more efficiently by **implementing new technology and processes**. Maximum speed limits and no-idling policies minimize unnecessary fuel consumption; both can be enforced by on-board computers. By using these methods, Staples has improved fleet fuel economy by more than 20-percent since 2007; the company is saving nearly one million gallons of diesel fuel annually⁽³⁰⁾. In addition, a number of technological improvements can be integrated into trucking fleets:

- **Auxiliary power units** provide the operator with heating, air conditioning, and electrical power, eliminating the need for the vehicle engine to be run when the driver is resting.
- **Replacing traditional dual tires** with one larger tire reduces load on the engine by reducing the weight and rolling resistance of the wheels.
- **Aerodynamic skirts** reduce drag, thereby reducing engine load.
- **Hybrid vehicles** are more efficient than their conventional counterparts. Walmart and Daimler Trucks are collaborating to build a new hybrid-electric truck⁽⁴⁾.
- **Alternative fuels**, such as natural gas, biodiesel, and electricity are less carbon intensive than traditional fuels. In 2010, Staples tested and ordered 40 all-electric powered trucks⁽³⁰⁾.

The **EPA's SmartWay Transport Partnership** helps retailers reduce their transport-related carbon footprint. The SmartWay program provides resources for transportation companies to quantify fuel use and emissions, develop reduction goals, and create strategic plans of action.

STUDY: HOW LOWE'S ENSURES EFFICIENT TRANSPORTATION OF GOODS

Like most retail companies, Lowe's does not own a truck fleet. So in order for the company to reduce the carbon footprint of its product transportation, Lowe's collaborates with its carriers to develop more sustainable practices.

Lowe's encourages its carriers to engage with EPA SmartWay. SmartWay is a voluntary program that promotes more efficient transportation technologies and practices and certifies carriers with more sustainable operations. In fact, all domestic shipments routed by Lowe's are transported by EPA SmartWay Carrier Partners. Since 2005, the SmartWay program has reduced the highway travel of the company's carriers by 560 million miles and resulted in diesel fuel savings of more than 100 million gallons. That is a carbon savings of more than one million tons⁽³⁾.

Lowe's works with its carriers to encourage deployment of specific technologies like auxiliary power units to reduce idling fuel consumption and trailer fairings to improve aerodynamics. In addition to its positive influence on hundreds of its own carriers, Lowe's is heavily involved in the Coalition for Responsible Transportation (CRT), a partnership between industry, Environmental Defense Fund, and EPA SmartWay Clean Trucks Initiative, which provides a framework for reducing truck-related GHG emissions at ports. From the West Coast to ports across the Southeast, Lowe's is partnering with others to protect air quality in and around ports. The EPA honored Lowe's efforts in 2011 with a SmartWay Champions award, the fourth consecutive honor Lowe's has received from its EPA partners.

Achieving transportation fuel reductions is easier for some than it is for others, depending on a retailer's size and business model. Some own their entire trucking fleet and have significant influence over trucking operations.

Other retailers contract with third parties and therefore have limited influence over transport operations but flexibility in carrier selection.

A LOOK INTO THE FUTURE

The recent volatility in fuel prices has given companies strong incentives to transform transportation fleets. Looking forward, these drivers will continue to increase in importance as fuel prices rise and international consensus develops around carbon action.

One of the greatest obstacles to maximizing transportation efficiency is the lack of commercially available, low carbon technology. However, natural gas and electric-powered trucks are already becoming popular and will become even more so as their prices fall. Retailers can help expand the availability of these technologies by pilot testing low carbon transportation methods and expanding their pilots whenever financially feasible.

In the meantime, however, retailers can optimize shipping by using efficient packing and distribution processes and currently available transportation technologies. Many retailers have already incorporated these approaches into their operations, which are rapidly becoming business as usual.

In the long term, achieving carbon neutral shipping will likely be the goal of many retailers. Just as the automobile industry is catering to the demand for more fuel-efficient vehicles, the trucking industry will continue to do the same. By embracing smarter transportation, retailers can both reduce unnecessary costs and shrink their carbon footprint.

THE ROLE OF TRANSPORTATION PROVIDERS

Retailers value their relationships with transportation providers and recognize that they can reduce the impact of product movement. Retailers will look for their transportation partners to evaluate and minimize their fuel costs and environmental impacts by:

- Retrofitting existing vehicle fleets with technologies that increase fuel efficiency.
- Implementing process and practice changes to reduce fuel consumption.
- Training drivers in fuel-efficient driving techniques.
- Replacing existing inefficient vehicles with new, high-efficiency vehicles.
- Redesigning products and packaging to increase packing rates.

EPA's SmartWay program provides resources, educational content, and financing for making transportation more fuel efficient.

Product Use & Disposal

A product's environmental footprint isn't only a result of how a product is manufactured, but also how it is used and then disposed at the end of its life. Indeed, lifecycle assessments show that some products have the greatest impact in their use and disposal phase.

Since retailers cannot control a product once it leaves their store, they cannot easily reduce these effects. To influence these phases of the product lifecycle, retailers are using innovative strategies to educate consumers, influence behavior, and take-back products at the end of their life.

ENSURING RESPONSIBLE USE & DISPOSAL

The way a consumer uses a product significantly contributes to that product's environmental impact. The majority of the impact for a typical shampoo, for example, lies in its use—the energy required to heat the water used to rinse hair—not in its manufacturing. And when the shampoo bottle is empty, the consumer may not take the initiative to recycle, or may not be able to because of a lack of local recycling infrastructure. Through product design, consumer education, and take-back programs, retailers can influence product use and disposal methods.

Incorporating sustainable use techniques into a product's design can reduce its use and disposal impacts. As one example, IKEA recently introduced new induction cooktops that are up to 40-percent more energy efficient and reduce cooking times. IKEA has also expanded the number of lamps and lights it sells that use energy-saving LEDs⁽³⁵⁾.

Simple messaging, on and off product, helps consumers both understand the impact of their use behaviors and provide more sustainable directions. Walmart has changed 74-percent of its clothing labels to say "machine wash cold" rather than "warm" or "hot," helping consumers reduce the amount of energy used to heat water, reducing energy bills in the process⁽⁴⁾.

STUDY: HOW BEST BUY PROMOTES RESPONSIBLE PRODUCT DISPOSAL

Best Buy has set the aggressive goal to recycle one billion pounds of consumer goods by the end of 2014. To achieve this goal, Best Buy offers three programs that give consumers recycling options before and after their product purchase, whether or not they purchased the product at a Best Buy store. These include:

- A Buy Back Program, which provides the consumer a product end-of-life option. Consumers have the option to purchase into the Buy Back Program along with their new product. When consumers no longer want that product, they can exchange the product (in working condition) for a Best Buy gift card for the predetermined redemption value⁽³⁶⁾.
- A trade-in program where consumers receive a Best Buy gift card in return for products like select used electronics, musical instruments, used video games, CDs, and movies⁽³⁷⁾.
- Free recycling options to help consumers safely dispose of any used electronics purchased anywhere⁽³⁸⁾.

Retailers are also developing infrastructure to **reclaim products** through on-site recycling and disposal stations to ensure they are properly recycled or disposed. Target offers recycling stations for glass, plastic, aluminum, paper, plastic bags, and certain electronic wastes⁽³⁹⁾; Staples offers ink and toner cartridge disposal⁽⁴⁰⁾; and Best Buy offers product buyback options⁽⁴¹⁾. In 2010, Gap Inc. ran a denim recycling campaign, Recycle Your Blues, where customers could recycle old jeans and receive a discount on a new pair. Through that program, Gap Inc. collected 360,000 units of denim and used them to create fiber insulation for more than 700 homes⁽⁴²⁾. These programs help consumers lessen their impact by recycling their old products.

A LOOK INTO THE FUTURE

Fully serving consumers will no longer simply mean providing high-quality products at low prices, but will also require that products help consumers minimize energy and water usage, and waste. Consumers are also starting to expect retailers to provide recycling and reuse options for end-of-life. To meet these growing needs, products will be designed for efficient use and reuse.

Manufacturers and retailers will instruct consumers how to use their products most efficiently and how to dispose of them in ways that minimize their impact. At the same time, niche “sustainable” product lines will give way to environmentally and socially responsible product attributes that will become mainstream across all product offerings.

Finally, recycling options for a variety of products and materials will become more prevalent, both as products are designed for recycling and reuse, and as retailers work with manufacturers, municipalities, and other stakeholders to develop stronger recycling infrastructure.

THE ROLE OF CONSUMERS

While retailers can introduce recycling options for consumers, consumer involvement is required to ultimately drive higher recycling rates. If recycling infrastructure does not already exist in your area, work with your local municipality and contract waste hauler to develop such a program.



Chapter Three: Integrated in Community

Retailers thrive when their customers and communities thrive. This fundamental truth drives engagement between retailers and their external stakeholders. With customers, retailers seek to understand and satisfy their desire for sustainable products. Within communities, retailers pride themselves on being strong local partners. And with nonprofit and government organizations, retailers seek partnerships to advance social and environmental programs in their direct operations and supply chains.

As the expectations of the retailer's role in society continue to evolve, these stakeholder relationships help the retail sector understand and adapt to changing needs. In this way, retailers gain just as much from their stakeholders as they give.

Government policies can create a common playing field for social and environmental issues, and municipalities can provide critical infrastructure for retailers' sustainability efforts. Communities sustain the health of retail stores and solidify their license to operate. Nonprofit organizations help companies understand sustainability challenges on the ground and then implement solutions. And, most importantly, customer needs drive product development and provide insights into new sources of competitive advantage.

Consumers

Consumers increasingly want to be engaged in a discussion about how the products they purchase affect themselves, their families, and the planet. They are curious about the material makeup of products, how these products are manufactured, where the ingredients originate, and who is affected throughout the supply chain. In turn, retailers are using the tools available to them—both old and new—to educate and engage consumers about the impacts of the products they buy.

ENGAGING CONSUMERS IN THE JOURNEY

Retailers can educate consumers about product impacts through traditional channels like marketing catalogs, in-store displays, product labels, and advertisements—wherever there are opportunities to highlight environmental and social product information. But the industry recognizes that, from the consumer's perspective, a barrage of green messages and the proliferation of “green” seals and certifications can be confusing and may appear inauthentic.

In order to rise above the mass of messages, some retailers are working to **educate consumers about healthy and sustainable choices** without overwhelming them with data. Whole Foods' Premium Body Care symbol allows customers to identify personal care products that meet meticulous research standards⁽⁴³⁾.

Exposing consumers to **products that enable eco-friendly lifestyles** and healthier choices are other ways that retailers can involve consumers in sustainability. More and more consumers are demanding products that reduce their energy and water usage, such as ENERGY STAR and WaterSense-certified appliances, as well as nontoxic household products. The Home Depot's Eco Options products have resulted in \$740 million in utility bill savings and cut more than 1.8 billion gallons of water consumption in 2009⁽⁴⁴⁾. These products and product lines can build brand loyalty while providing more eco-friendly and healthy lifestyles.

Recognizing the green consumerism trend, retailers are **introducing private label brand lines** that meet consumers' growing interest in sustainable products. Private brands like CVS's Earth Essentials, Petco's Planet Petco, and Giant Eagle's Nature's Basket are easy to recognize on retail shelves and are becoming more popular.

Product and supply chain transparency is another important approach to authentically communicate to consumers. Through the web, social media, and smartphone applications, consumers can engage with information about sustainable products at the level they're comfortable with. Walmart's Love, Earth jewelry line, for example, is a pilot project that allows consumers to trace their purchases from “mine to market,” connecting them to the people and places that mine and process their jewelry⁽⁴⁵⁾.

The web and social media also enable **healthy dialogue between consumers and retailers**, allowing consumers to influence company operations and product offerings. Best Buy has an entire website dedicated to soliciting consumer (and employee) feedback—its Idea Exchange. Customers can provide feedback on a range of issues, including the sustainability performance of Best Buy's operations and product assortment⁽⁴⁶⁾.

Though the importance of sustainability messaging continues to grow, actions still speak louder than words. To fully engage

consumers, retailers must do more than simply communicate about sustainability; they need to help customers **see and feel it through the shopping experience**. Approaches include:

- **Retail spaces with educational signage.**

IKEA uses stand-alone signs as well as banners and posters to educate consumers about the production of materials used in its products, such as sustainable cotton ⁽¹⁴⁾.

- **On-site recycling stations.** Depending on the retailer, recycling stations can accept

anything from paper and plastic bags to old batteries and cell phones. The Home Depot collected 667,000 pounds of rechargeable batteries from customers in 2009 as part of their Rechargeable Battery Recycling Corporation program ⁽⁴⁴⁾.

- **Buy-back programs or trade-in options**

help consumers dispose of unwanted products and also attract customers back to the store.

STUDY: HOW IKEA EDUCATES CONSUMERS ABOUT SUSTAINABLE CHOICES

IKEA infuses educational and engagement opportunities into the full consumer shopping experience. Beginning in customers' homes, IKEA promotes its sustainability activities via its website, Facebook, and other social media. Sustainability is prominently featured on IKEA's home page with a rotating message box that includes information about planting trees, inefficient lightbulb phaseouts, and more. The site also suggests alternative modes of transportation to stores when those options are available.

While shopping at a store, customers learn about IKEA's efforts through a variety of touch points:

- Wall signs highlight the store's eco-friendly attributes and the company's sustainability programs.
- Signs hanging over products educate customers about sustainable product choices.

- Product labels, where possible, describe a sustainable product's attributes by tracing materials to their origins, listing recycled contents, etc.
- Some room settings are designed with sustainability in mind, highlighting sustainable options.
- Sales associates are trained to help consumers make eco-conscious choices.

Beyond messaging, customers are actively engaged in the sustainable shopping experience. IKEA helps customers safely dispose of their compact fluorescent lightbulbs with in-store recycling. Their plastic bag elimination program proved to be a huge success; in 2007, IKEA notified customers about the upcoming ban and eliminated 92-percent of their bags. A year later they announced that they would only provide reusable blue bags. As expected, there was some resistance, but IKEA reports that this effort proved to be a conversation starter between the company, its employees, and the customers. Finally, customers have the option to plant a tree as they use a self-service checkout.

A LOOK INTO THE FUTURE

Retailers will take an authentic and unobtrusive **360-degree approach** to engage customers via marketing and promotions, as well as through the in-store shopping experience. This approach will include consumer facing messages, educational materials and signage, in-store sustainability efforts, recycling and buy-back programs, and more, all of which enhance the shopping experience while educating consumers about the importance of sustainability.

With regard to product marketing, creating a **common language** to ease consumer understanding will be a top priority for the industry. Retailers recognize that phrases such as “green,” “sustainable,” “nontoxic,” and “recyclable” have different meanings for different people. While some “conscious” consumers perform significant research before purchasing, others consumers have only a passing interest in or no interest at all in this information. A consistent language will help foster interest, minimize uncertainty, and maintain trust between retailers and their customers. The soon-to-be-updated FTC Green Guidelines will offer significant clarity on

these terms⁽⁴⁷⁾, and retailers are already aligning their messaging to the draft guidelines. In addition, third-party verification and certifications like the Forest Stewardship Council, Marine Stewardship Council, and ENERGY STAR, if well-known and trusted, will further clarify the mix of product messages. However, given the current diversity in consumer messages around sustainability, the key challenge for retail will be to integrate sustainability into the customer experience in an understandable and authentic way.

Through collaborative efforts, the next five to ten years will bring **consistent and easy-to-understand product sustainability information** to consumers. This information will be available in many forms, including product labels, smartphone applications, websites, in-store displays, and more. This information will empower consumers to make more informed choices that are consistent with their needs and values. While price will always be a major factor in consumers’ choices, other factors—like where the product came from, how it was made, and how it impacts the planet—will increasingly influence their buying decisions.

Community Engagement

Retail companies are always looking for ways to build employee engagement and community impact at the store level. Donating inventory through organizations like Good360 is a mechanism to do so while getting the added business benefits of asset management, loss prevention, waste diversion, brand protection and cost savings.

Ellie Hollander

Chief Strategy Officer
Good360

Retail stores are integral parts of the communities they serve, well beyond the product they sell. Through employment, staff volunteerism, donations to community organizations, and support of local businesses, a retailer adds vitality to the community and drives the local economy. In turn, strong community engagement programs can inspire employees, engage customers, and help retailers better understand and serve local needs.

MAKING A DIFFERENCE

Long before the phrase “corporate social responsibility” was coined, retailers were already giving back to the communities they served. For example, The Belk Foundation, started in 1928, has become a support system for education in the communities that Belk serves⁽⁴⁸⁾.

Today retailers lead many diverse programs tied to local community needs. Examples include:

- **Educational commitments.** By offering student scholarships and donating to local schools and community organizations, retailers support local educational systems. For example, in 2010 Staples continued supporting their long-term relationships with youth and educational organizations like Boys & Girls Club of America, Earth Force, and others⁽⁴⁹⁾.
- **Training classes.** Many retailers offer classes, from healthy eating and cooking to do-it-yourself home improvement. The Home Depot hosts Kids Workshops that 75 children attend on average per store; children learn to

make objects that can be used in and around their homes or communities⁽⁵⁰⁾.

- **In-need programs.** Retailers leverage their core competencies to serve communities in need. jcpenny has a long-standing tradition of meeting community needs through its afterschool program support and partnerships with the Boys & Girls Club of America and National 4-H. This year jcpenny reached \$100 million in donations⁽⁵¹⁾.
- **Cause marketing** connects brands or products to a social cause, often by donating a certain percentage of proceeds to nonprofits supporting that cause.
- **Local community giving.** By providing small grants to local community organizations, retailers can help meet specific community needs, often in the areas in which they operate.
- **Philanthropic support of national or international charities** such as St. Jude’s Children’s Research Hospital or the American Red Cross. Many retailers will select specific

national causes and provide annual donations, and a number of retailers coordinate their own philanthropic foundations such as Whole Foods's Whole Planet Foundation, which aims to fight poverty through microlending in developing countries ⁽⁵²⁾.

- **Product donation** is often a component of retail giving programs. Through its Framing Hope product donation program, The Home Depot diverts excess inventory from landfills and into the homes and lives of thousands of people across the country each year ⁽⁵³⁾.
- **Employee volunteerism.** Employee volunteer opportunities can range from participating in local events of employees' choice to disaster relief and cleanup efforts. In 2011, nearly 2.3 million volunteer hours were provided to work on trails, in parks, and along waterways on conservation projects with REI-funded nonprofits ⁽⁵⁴⁾.
- **Buying locally.** Investing in local businesses provides long-term community benefits and ensures an evergreen customer base. For example, some retailers have helped local entrepreneurs expand their recycling and composting programs, which in turn expands local employment and provides environmentally sustainable infrastructure.
- **Disaster relief.** When disasters happen, retailers respond with financial and logistical support. Lowe's has a long-standing history of donating time and money to disaster relief efforts. In 2010, through store teams, Lowe's Heroes associates participated in more than 1,300 projects, and Lowe's contributed more than \$1.3 million in materials ⁽³⁾.

Some companies tie their philanthropic activities directly to their sustainability objectives. Gap Inc., whose sustainability goals include the improvement of working conditions in the garment supply chain, created a Personal Advancement and Career Enhancement (PACE) program to help female garment workers gain the technical and social skills they need to succeed. So far, more than 5,000 women have been trained through the PACE program ⁽⁵⁵⁾.

A LOOK INTO THE FUTURE

Philanthropy and volunteerism will always be core parts of the retail industry. Both monetary and in-kind donations help inspire employees, solidify community bonds, and strengthen national brands.

In addition, retailers will continue to go beyond traditional philanthropy, by making strategic investments to ensure that their communities thrive and by using their core competencies to provide essential services to the underserved. The strongest programs will directly align their philanthropic programs with their sustainability and business objectives.

Lastly, efforts to invest in local business will continue and expand. Investing in a vibrant community economy results in more resilient supply chains, a robust consumer base, and a decrease in the ecological footprint of retail operations.

STUDY: HOW TARGET ENGAGES THE COMMUNITY

Target views their stores as much more than a retail location in a city or town. They are a working member of a community and dedicate much of their time and resources to integrating stores into local communities. This helps Target to become more rooted in the community and accepted as a valued local participant and partner. Concurrently, they are also able to highlight the community-oriented nature of the company and help to build brand support.

K-12 education is the cornerstone of Target's community giving, and as such, it has raised more than \$286 million since 1997. To ensure the funds are used for the items any particular school needs most, Target listens to and acts on needs at the local level.

Target also recognizes the benefits of school libraries in the educational process. To improve the condition of school libraries across the country, Target has performed 76 library makeovers between 2007 and 2010.

These school library renovations have provided new carpet, furniture, computers, and books, as well as the unique design and construction expertise that Target team members can bring.

In addition to funding school programs, Target encourages their team members to volunteer with education-related activities. In 2010 alone, Target's employees posted 430,000 volunteer hours. While those numbers are impressive on their own, the company has set an ambitious goal to reach 700,000 volunteer hours annually by 2015.

In other instances Target goes beyond educational funding to integrate the company into the communities it serves. When Target entered the city of Washington, DC, for example, it donated to the Dance Institute of Washington and sponsored the Gala Hispanic Theatre to foster fellowship among local community members. This community involvement nurtures goodwill and proactively shows the trusting nature of Target while mitigating any lingering concerns the community may have as the retailer enters new markets.

NGO and Government Engagement

The interests of civil society influence all aspects of a retailer's business. Recognizing this, retailers are looking to cultivate relationships with environmental and social advocacy organizations, as well as with federal, state, and local governments. Doing so opens generative channels of communication, and promotes and enhances the companies' sustainability objectives, especially such nuanced, challenging objectives as natural resource management and manufacturing labor conditions—those issues that no one organization can solve alone.

CREATING NEW PARTNERSHIPS

Collaboration with external stakeholders has become more pronounced as retailers seek to minimize their social and environmental impact. Today, retailers, nonprofits, governments, and academics alike realize the challenges inherent in integrating sustainability into company operations and supply chains, so they are working in partnership to positively effect change.

Sustainable resource management is one of the topics being addressed through civil society engagement. Some prominent partnerships focus on endangered and exploited resources and the protection of forest and ocean ecosystems. The Forest Stewardship Council is one means by which retailers can ensure the sustainability of raw materials in their supply chain. The Marine Stewardship Council (MSC), the Aquaculture Certification Council, and Ocean Trust are avenues to promote sustainable fishing. Target's entire salmon selection, for example, is MSC-certified⁽⁵⁶⁾.

Working with nonprofits and government entities to **improve labor conditions** in supplier companies, especially in developing countries, has been a priority for the industry for many years. Individual companies have teamed up with nonprofits and government organizations like the International Labour Organization, the Responsible Cotton Network, and programs for the prevention of human trafficking to assess supply chain issues and develop systems to comprehensively address

those concerns. In 1999, companies and nonprofits banded together to collaboratively achieve their human rights objectives as the Fair Labor Association (FLA). Adidas, American Eagle Outfitters, H&M, New Balance, NIKE, Puma, and other consumer products companies are members of the FLA. By working with the association, retailers promote and enforce the FLA's Workplace Code of Conduct, which is built on the pillars of collaborative action, transparency and public reporting, remediation, third-party compliance, and innovation in labor compliance⁽⁵⁷⁾. Other supply chain human rights working groups include BSR's Apparel, Mills, & Sundries Working Group, which is jointly developing one set of sustainability principles, diagnostic tools, and reporting mechanisms for better work in the apparel sector.

Retailers **engage with municipalities** on policy issues to educate them about the necessity of regulations that support sustainability efforts. Waste management policies, for example, should provide incentives for recycling over landfilling. Landscaping policies should promote native, low-maintenance plants rather than water-intense ones. And building codes should incorporate green design features. Through collaboration among retailers, municipalities, and other local companies, more sustainable practices can become standard in cities and towns across the United States.

Retailers also engage with civil society to **affect federal policies** that promote sustainability. BICEP, or the Business for Innovative Climate and Energy Policy, founded by Levi Strauss, NIKE, Starbucks, and The Timberland Company, among others, advocates for clean climate and energy policy in the United States⁽⁵⁸⁾. The Coalition for Responsible Transportation, whose members include Best Buy, jcpenny, NIKE, Target, The Home Depot, and Walmart, partners with federal, state, and local ports to improve the environmental quality of port communities⁽⁵⁹⁾.

A LOOK INTO THE FUTURE

Successfully addressing global social and environmental challenges will require collective action and increased stakeholder involvement. As an influential industry, retailers understand that they have a responsibility to promote positive change in their communities and globally. However, such change is only

possible with the cooperation of grassroots organizations to voice needs, nonprofits to lend expertise, and retailers to provide mechanisms for change.

Partnership models between companies and nonprofit organizations will continue to evolve, as nonprofits increasingly seek to partner with business to develop on shared solutions. As this trend builds, collaborations will emerge to address various aspects of company and supply chain operations.

At the same time, some nonprofit organizations may respond to increases in collaboration with critical voices. The retail sector will continue to proactively engage critics and seek their help in identifying gaps in existing sustainability programs. Because sustainability is a journey and not a destination, this type of engagement is critical to retailers' success.

Invitation

This first Retail Industry Sustainability Report is intended to help illuminate the path that retailers are beginning to travel. As momentum builds in individual companies and in the industry as a whole, you can expect to see more and more change occurring at an ever-accelerating pace. In the meantime, you can partner with retail companies to help them on their journey.

Companies can act alone to address social and environmental issues, but establishing the systems and infrastructure required to address the root cause of today's challenges requires collaboration. You are invited to partner with the industry as it faces the challenge of realizing a sustainable future by building the industry of tomorrow.

In retail stores, companies aim to provide a place for employees and customers to flourish, while minimizing the environmental footprint. For the products retailers sell, companies seek ways to continually measure and reduce their impact, from design to end-of-life. In the communities and world in which retailers operate, companies serve as a partner and as a citizen, working to meet human needs inside and outside of the store.

To help achieve this shared vision, retail companies invite you to take action on what you have read, and to partner with them on the path toward sustainability.

For more information on how to join in the industry's efforts, please visit <http://www.retailsustainability.com>.

About The Authors

This report was developed by the Retail Industry Leaders Association, with contributions by BSR. Authors include Adam Siegel (RILA), Maggie Burnside (RILA), and Corinna Kester (BSR), as well as BSR advisors Ted Howes and Kai Robertson.

ABOUT RILA

RILA is an alliance of the world's most successful and innovative retailer and supplier companies—the leaders of the retail industry. RILA members represent more than \$1.5 trillion in sales annually and operate more than 100,000 stores, manufacturing facilities, and distribution centers. Its member retailers and suppliers have facilities in all 50 states, as well as internationally, and employ millions of workers domestically and worldwide.

RILA's Retail Sustainability Initiative (RSI) focuses on bringing together RILA's members to collaborate, share leading practices, and drive sustainable innovation. Visit www.rila.org/sustainability to learn more.

ABOUT BSR

A leader in corporate responsibility since 1992, BSR works with its global network of more than 250 member companies to develop sustainable business strategies and solutions through consulting, research, and cross-sector collaboration. With offices in Asia, Europe, and North America, BSR uses its expertise in the environment, human rights, economic development, and governance and accountability to guide global companies toward creating a just and sustainable world. Visit www.bsr.org for more information.

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